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Zimbabwe

Tobacco and Products

Annual

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Report Highlights:

Zimbabwe, once the world's second biggest tobacco exporter is currently selling its smallest crop in 33 years allowing competitors like Brazil, China and India to gain market share. Total 2004 production is estimated at 60,750 tons compared to the record 245,148 tons produced in 2000. Exports could still exceed 60,000 tons compared to the 143,000 tons exported two years ago. The cutback in production is mainly due to the land reform program.

Includes PSD Changes: Yes
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Summary

Zimbabwe, once the world's second biggest tobacco exporter, is currently selling its smallest crop in 33 years. The decline is the direct result of an agrarian reform program through which the government seized land from white commercial growers for redistribution. The main product is flue-cured tobacco. Zimbabwe's flue cured leaf, used to flavour brands such as Camel and Marlboro, competes with US leaf for flavour. Zimbabwe used to account for about 20% of global exports of flue-cured tobacco, which is used for blending with cheaper leaf. Until a few years ago, 8% of the tobacco in a western-style cigarette would have come from Zimbabwe. Total production in 2004 is estimated at 60,750 Mt., down from 84,022 in 2003 and 169,844 in 2002. The record crop of 245,148 Mt. was produced in 2000. It was shortly after this crop that the agrarian reform started.

During the summer of 2003/04 Zimbabwe experienced average rainfall. After good rains in mid-November, a hot dry spell was experienced till late December. Three weeks of good rains in early January were followed by another hot dry spell till late February. A final wet spell was experienced in March, which was of little assistance to the tobacco crops but did assist in filling storage dams. The proportion of irrigated tobacco is declining, as much of the equipment and expertise was lost in the agrarian reform program.

Flue Cured production for 2004 is estimated at 60,000 Mt., down from 81,806 Mt. in 2003 and 165,835 Mt. in 2002. The prolonged dry spell in the second half of the season is expected to produce similar styles as in 2002. The average price paid to producers in 2003 was US\$2.25/kg, compared to US\$2.27 in 2002 and US\$1.74 in 2001. For the 2004 crop the auction floors opened on 30 March 2004.

Burley production in 2004 is estimated at 750 Mt., down from 2,184 Mt. in 2003, and 3,988 Mt. in 2002. The average price paid to producers in 2003 was US\$1.25/kg, compared to US\$1.30 in 2002 and US\$0.99 in 2001. The auction floor in Mutare has been closed and the remaining auction floor in Harare opened on 27 April 2004.

Cigarette production showed another small reduction in 2003 when compared to 2002 due to the economic circumstances prevailing in Zimbabwe but is expected to show considerable gains in 2004 as new regional markets are developed and a third manufacturer starts production.

The marketing year used throughout this report is the year in which the crop is sold. For example, MY 2004 refer to the crop planted during 2003 and sold during 2004.

Exchange rate:

The Reserve Bank of Zimbabwe (RBZ) requires that 25% of all foreign currency is surrendered at US\$1.00 = ZW\$824.00 with the remainder being auctioned. This blend of exchange rates is used to determine the daily exchange rate used on the auction floors to convert the US dollar value to Zimbabwe dollars.

May 3, 2004 US\$1.00 = Z\$55.10 (Official GOZ rate)
 US\$1.00 = Z\$5 200.00 (Exporters rate)
 US\$1.00 = Z\$5 125.00 (RBZ auction rate)

In order to more equitably distribute the limited foreign currency available and to stabilise the exchange rate, the Reserve Bank of Zimbabwe introduced foreign currency auctions in January 2004. The rate started at US\$1.00 = ZW\$3,800 but has already risen to US\$1.00 = ZW\$5,100. Due to the extreme shortage of foreign currency, the parallel market still flourishes.

Country Zimbabwe

Commodity Tobacco, Total

Hectares	2002	Revised	2003	Estimate	2004	Forecast
Metric tons	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post New]
Market Year Begin	01/2002		01/2003		01/2004	
Area Planted	78491	78195	59894	52604	0	33300
Beginning Stocks	132163	57084	142530	55575	129088	22376
Farm Sales Weight Prod	170115	169844	88021	84022	0	60750
Dry Weight Production	146124	146124	75623	72264	0	52348
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	10000	60	5000	40	0	35
TOTAL Imports	10000	60	5000	40	0	35
TOTAL SUPPLY	288287	203268	223153	127879	129088	74759
Exports	141570	143487	90000	101836	0	61500
Dom. Leaf Consumption	4147	4146	4030	3627	0	3097
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	40	60	35	40	0	35
TOTAL Dom. Consumption	4187	4206	4065	3667	0	3132
TOTAL Disappearance	145757	147693	94065	105503	0	64632
Ending Stocks	142530	55575	129088	22376	0	10127
TOTAL DISTRIBUTION	288287	203268	223153	127879	0	74759

Production

Production table:

		AREA	Ha.		PRODUCTION	Mt.
	2002	2003	2004	2002	2003	2004
Flue-cured	74,295	49,571	32,000	165,835	81,806	60,000
Burley	3,500	2,643	850	3,988	2,184	700
Other	400	390	450	21	32	50
TOTAL	78,195	52,604	33,300	169,844	84,022	60,750

The continued reduction in the area planted is a direct result of the agrarian reform process. This trend is likely to stabilise at current levels and future reductions will be relatively small. No major expansion in plantings can be expected until political and economic stability returns.

Average prices received over the past few seasons were:

US\$/kg.	2001	2002	2003
Flue cured	1.74	2.27	2.25
Burley	0.99	1.30	1.25

During 2003, the GOZ announced that the exchange rate to be used on the auction floors was US\$1 = ZW\$824. There was considerable grower pressure for an upward revision, but this was resisted. For 2004, following the introduction of the auction system for the sale of foreign currency, GOZ has announced that the exchange rate to be used will be a blend arrived at as follows: 25% of the value will be at US\$1 = ZW\$824 and the remaining 75% will be the average auction value of the US\$ at the previous day's Reserve Bank of

Zimbabwe (RBZ) auctions. This arrangement benefits farmers.

Commodity Outlook, Consumption

In Zimbabwe, with more than 97% of total tobacco production exported, domestic consumption has little or no influence on production. Zimbabwe's ability to sell its tobacco on world markets is the major factor determining production.

Commodity Outlook, Trade

The only tobacco imported is for blending for the manufacturing of export cigarettes. Apparently some South African tobacco is sent to Zimbabwe for processing. Exports are the main activity. It appears that the government has sold forward about 35,000 tons of the 2004 crop to get foreign exchange and avoid IMF expulsion.

EXPORTS

Country Zimbabwe

Commodity Tobacco, Total

Time Period	CY	Units:	Mt.
Exports for:	2002		2003
U.S.		U.S.	
Others		Others	
Far East	40856	UK	20356
UK	28481	Germany	11157
Germany	15554	Denmark	3020
Africa	12475	Netherlands	2700
Non EU Europe	7551	Rest of EU	11801
Belgium	6512	Rest of Europe	10837
Oceania	5922	Far East	19724
Middle East	3921	Africa	11314
Netherlands	2677	Middle East	6324
Americas	1864	Americas	1434
Total for Others	125813		98667
Others not Listed	17674		3169
Grand Total	143487		101836

Commodity Outlook, Policy

The Government of Zimbabwe does not control any aspect of tobacco production in Zimbabwe, but is actively considering ways and means of assisting the new farmers to increase production in order to increase foreign currency earnings.

Marketing

Government does not control tobacco marketing. The Tobacco Industry Marketing Board (TIMB) merely acts as an arbiter to resolve disputes between growers and merchants and to oversee the orderly marketing of all the tobacco crops.

Country Zimbabwe

Commodity Tobacco, Flue cured

Hectares	2002	Revised	2003	Estimate	2004	Forecast
						Post
Metric tons	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	[New]
Market Year Begin		01/2002		01/2003		01/2004
Area Planted	0	74295	0	49571	0	32000
Beginning Stocks	0	53309	0	51888	0	18443
Farm Sales Weight Prod	0	165835	0	81806	0	60000
Dry Weight Production	0	143116	0	70599	0	51780
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	0	196425	0	122487	0	70223
Exports	0	140537	0	100544	0	60000
Dom. Leaf Consumption	0	4000	0	3500	0	3000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	0	4000	0	3500	0	3000
TOTAL Disappearance	0	144537	0	104044	0	63000
Ending Stocks	0	51888	0	18443	0	7223
TOTAL DISTRIBUTION	0	196425	0	122487	0	70223

Production

Flue-cured tobacco is generally produced in the better rainfall areas North and East of Harare where sandier soils predominate. The northern parts of the tobacco areas generally produce a fast ripening, high nicotine style of tobacco favoured by the Virginia cigarette manufacturer. These areas are generally below 4,000 ft altitude and are more dependent on the Inter Tropical Convergent Zone for their rainfall. Nearer to, and East of, Harare a thicker, slower growing style of tobacco with slightly lower nicotine content is produced. The latter style is more sought after for blended cigarettes. With the removal of nearly all the large commercial farmers, the irrigated proportion of the crop is expected to decline in the future.

The reduction in area planted during the last year is a direct result of the agrarian reform process in the country. The increase in the proportion of the crop being planted early in 2003 is a direct result of the few remaining large producers using their limited irrigation facilities to the maximum to optimise production. With nearly all of these large producers being evicted from their farms, the irrigated crop is expected to show a dramatic decline in 2005.

The following table shows the changes taking place in planting dates during the last five seasons.

% of the crop	2000	2001	2002	2003	2004
Early	38	38	33	44	40
Main	61	61	66	55	50
Late	1	1	1	1	10

The early crop is planted and grown under full irrigation. In previous years, there was a trend to plant this crop in the latter half of September in order to improve the quality of the top of

the plant to give it a more natural growth. However, the few remaining growers with irrigation tended to grow their crop within the first week of September in order to maximise yields knowing that this could well be their last tobacco crop. The main crop is generally grown under dry land conditions and is planted from late October onwards depending on the onset of the rains. Where possible, water is used to assist in planting this crop. The increase in the plantings of the late crop has been due to the increase of peasant growers who are more dependent on the rains to grow their crop.

All the curing systems throughout the industry are either coal or wood fired. Growers who use coal had great difficulty in sourcing adequate coal due to the almost non-functioning of the National Railways of Zimbabwe and very low production by the sole coal producer. A large number of the new farmers merely cut whatever trees they could find in order to source fuel for their barns. This significantly increased the deforestation going on in the country. Supply of fertiliser and crop chemicals was intermittent due to foreign currency shortages but was generally adequate to meet needs.

National yield in 2003 was 2,000kg/ha, down from 2,213kg/ha in 2002 and 2,264kg/ha in 2001. The downward trend in yield is due to the change in growing technique of the new growers. The yield in 2003 is the lowest since 1987, with the exception of MY 1997 when the country experienced an exceptionally wet year. Yield of the early irrigated crop planted in early September can exceed 3 600kg/ha while the yield of the main dry land crop will vary between districts with the slow ripening areas expecting 2,500kg/ha while the late planted crop is between 1,500 and 2,000kg/ha.

Crop Quality

The crop styles over the previous 5 years is shown in the following table:

STYLE %	1999	2000	2001	2002	2003
Ripe spotted	13	13	20	11	10
Standard	56	55	50	55	43
Droughted	9	13	10	13	19
Green	22	19	20	21	28

The table clearly shows the decline in quality in 2003 due to the prolonged dry spells early in the season followed by the exceptionally wet second half.

Commodity Outlook, Consumption

Zimbabwe is unique amongst the world producers in that the vast majority of production is exported and domestic consumption has little or no influence on overall production trends. The future of the tobacco industry depends on its ability to remain competitive in the world markets. The industry does not receive assistance or subsidy from the GOZ.

Commodity Outlook, Trade

The port of Beira in neighbouring Mozambique retains its importance for tobacco exports and nearly one third of exports are routed through this port. It is capable of handling up to 60% of Zimbabwe production but difficulties are being experienced with the railways and at the port itself. It is estimated that in excess of two thirds of exports went by road because of the poor state of the Zimbabwean railways. The shortage of containers within Zimbabwe is compelling exporters to containerise the crop in South Africa.

Exports

Country Zimbabwe

Commodity Flue Cured Tobacco

Time Period	Jan-Dec	Units:	Metric ton
Exports for:	2002		2003
U.S.		U.S.	1308
Others		Others	
EU	67,620	U.K.	20796
Far East	40,157	Germany	11326
Africa	12310	France	3555
Rest of Europe	7433	Denmark	2981
Americas	1219	Netherlands	2700
Middle East	3897	Rest of EU	8061
Oceania	5922	Rest of Europe	9896
		Far East	19724
		Africa	11356
		Oceania	3079
Total for Others	138558		93474
Others not Listed	1979		5762
Grand Total	140537		100544

Stocks

Stock levels immediately prior to the sales of 2004 were slightly down on those of 2003 but is unlikely to have any influence on the prices paid for the current crop. The policy is to keep stocks down to such a level as not to impair storage available for the new crop.

Policy

With the agrarian reforms, smaller producers are delivering the major portion of the crop. These growers have limited inputs and as a result, the quality of the crop has declined. GOZ is encouraging the continued production of flue-cured tobacco. There are still a few large producers but most of these will have been evicted from their farms by the end of 2004.

Marketing

Daily wastage is a term used for the amount of tobacco that is offered on auction more than once as either:

- The grower is dissatisfied with the price offered, or
- Presentation is substandard and buyers require it to be re-handled before sale.

Daily wastage is used as a measure of the dissatisfaction of growers with prices and in 1987 it reached an all time high of 31.75%. Daily wastage in 2003 was 9.10%, up from 7.89% in 2002 and 6.85% in 2001.

During 2003, the Government allowed merchants to buy directly from the growers. The GOZ also announced mid way through 2003 that they would allow contract tobacco production. In

exchange for financial assistance in producing the crop, growers were contracted to sell to the financiers. Once their contract had been fulfilled, growers were then permitted to either continue supplying the merchant direct or put the remainder of their crop on the auction system. With the contract system, the crop is classified and growers are paid the previous day's average for the grade of their crop. Further, growers are permitted to sell directly to merchants at a negotiated price. This has caused some disruption to orderly marketing of the crop.

Country Zimbabwe

Commodity Tobacco, Burley

Hectares	2002		Revised	2003	Estimate		2004	Forecast
Metric tons	USDA [Old]		Post [New]	USDA [Old]	Post [New]		USDA [Old]	Post [New]
Market Year Begin	01/2002				01/2003			01/2004
Area Planted	0		3500	0		2643	0	850
Beginning Stocks	0		3761	0		3687	0	3932
Farm Sales Weight Prod	0		3988	0		2184	0	700
Dry Weight Production	0		2991	0		1638	0	525
U.S. Leaf Imports	0		0	0		0	0	0
Other Foreign Imports	0		0	0		0	0	0
TOTAL Imports	0		0	0		0	0	0
TOTAL SUPPLY	0		6752	0		5325	0	4457
Exports	0		2950	0		1293	0	1500
Dom. Leaf Consumption	0		115	0		100	0	70
U.S. Leaf Dom. Consum.	0		0	0		0	0	0
Other Foreign Consump.	0		0	0		0	0	0
TOTAL Dom. Consumption	0		115	0		100	0	70
TOTAL Disappearance	0		3065	0		1393	0	1570
Ending Stocks	0		3687	0		3932	0	2887
TOTAL DISTRIBUTION	0		6752	0		5325	0	4457

Production

Burley tobacco is mainly grown in the north east of Zimbabwe (Centenary, Chiweshe, Mount Darwin and Madziwa) and in the Eastern Highlands (Nyamaropa, Burma Valley and Chipinge). These areas have better rainfall and the longer periods of higher relative humidity needed to cure the crop. Burley is now almost entirely grown by small farmers with only a few large producers remaining. Since 2003 the crop is sold over only one auction floor in Harare.

The decline in area planted in 2003 is again a direct reflection of the agrarian reforms. In this sector, because of the preponderance of small producers, the impact of the current viability problems has also contributed to the downturn in production. With the almost complete removal of the large farmers, the area planted in 2004 has declined significantly again.

Trade

Export

Country Zimbabwe

Commodity Tobacco, Burley

Time Period Units:
 Exports for:
 U.S. U.S.
 Others Others

EU	565	Italy	94
Far East	700	Greece	91
Americas	635	France	91
Africa	165	Germany	79
Rest of Europe	115	Rest of EU	75
Middle East	25	Rest of Europe	320
		Africa	361

Total for Others 2205 1111
 Others not Listed
 Grand Total 2950 1293

PSD Table

Country Zimbabwe Commodity Cigarettes

Million pieces	2002	Revised	2003	Estimate	2004	Forecast
	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin	01/2002		01/2003		01/2004	
Filter Production	3800	3500	3800	3000	0	4500
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	3800	3500	3800	3000	0	4500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	3800	3500	3800	3000	0	4500
Exports	2000	2000	2000	1200	0	3000
Domestic Consumption	1800	1500	1800	1800	0	1500
TOTAL DISTRIBUTION	3800	3500	3800	3000	0	4500

Production

Compared to 2002, production declined in 2003. However, production in 2004 is set to increase significantly to service newly developed export markets.

With further liberalisation of the foreign currency markets, the industry can now import inputs, such as filters, cigarette paper and packaging materials required in cigarette manufacture. There are still no international or non-filter cigarettes produced in Zimbabwe. Following the merger of the two international parent companies of the local processors (BAT), one factory was sold to a group of local businessmen. A third manufacturer has started production and is expected to increase production in 2004. The main competition to cigarettes is raw tobacco used in 'roll your own' cigarettes. Manufacturers estimate that these sales exceed the total sales of excisable products. Efforts are continuing to develop a lower price brand for the lower end of the market. Competition from raw leaf and health considerations are slowing the process. The result may be the manufacture of a non-filter product.

The government does not discourage the production of tobacco products but the anti smoking campaign has increased. The anti-smoking slogans on the packaging is in line with world standards but has had very limited impact on consumption. No effort is being made to limit the sale of raw tobacco.